



City of Santa Barbara
Airport Department

Memorandum

DATE: April 18, 2012
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Annual Budget for FY 2013

RECOMMENDATION: That Airport Commission review and recommend approval of the Airport Department's FY 2013 Operating budget.

Executive Summary

Budget Balancing Strategy

On July 1, 2011, the City began the first year of a two-year budget cycle. The following assumptions were used in preparing the FY 2012 budget: occupancy of the new Airline Terminal on or before June 2011; passenger traffic to be flat; commercial/industrial revenue would be stable; and general aviation revenues would increase. Additionally, cost of operation of the new terminal would be projected based on estimated square foot maintenance costs and equipment requirements. A parking rate adjustment was also approved with an estimate of approximately \$350,000 in new revenues.

The new terminal building was not operational until mid-August impacting the revenues from building rentals and concessions. Passenger traffic did not remain flat; rather there was a 7% decrease. Commercial/industrial properties remained stable and revenues increased slightly. General aviation revenues also increased from the budgeted levels. Parking has been affected by the on-going construction including the closure of the short-term parking lot resulting in a 10% decline in the number of parkers and associated revenue. The parking rate adjustment was effective February 1, 2012 and based on projections total parking revenue will be substantially below budget.

Historically, reserves above policy would be used to offset any shortage in the current fiscal year budget and would be used to supplement the FY 2013 budget if required.

Significant Issues Affecting Development of the Budget

The most significant impact to preparation of the FY 2013 budget was two separate financial situations that required the unanticipated use of reserves above policy. First, annually the Airport receives an accounting of reserve balances from the Finance Department. The Airport uses this information for the preparation of the budget. Reserves above Council Policy are used to fund the Airport's Capital Program. This year the Finance Department staff advised the Airport that during an internal audit it was discovered that for the past five years adjustments to

capital project overruns had not been made resulting in a shortfall of over \$1.8 million in the Capital Fund 442. It was determined that the Airport had been given incomplete information regarding its reserves above Policy for the entire five year period. The goal was to cover the full shortfall at mid-year using reserves above policy.

However, in order to complete the Airline Terminal Improvement project and meet other contractual obligations, the Airport needed to increase funding for three projects and appropriate funding for three unanticipated projects.

Staff worked closely with the Finance Director and the Accounting Manager to successfully develop a strategy to resolve the shortfall and to fund the necessary capital obligations.

First staff requested and City Council approved mid-year adjustments in the Capital Fund for the following Capital projects totaling \$2,357,065:

Existing Projects requiring additional funding:

Goleta Sanitary District Plant Upgrade - \$767,000
Goleta Slough Mitigation - \$551,341
Airline Terminal Project - \$538,724

New projects at mid-year:

Short-term Parking Lot Kiosk - \$120,000
Parking Lot Kiosk Equipment - \$250,000
Building Demolition - \$130,000

An examination of the Capital Fund resulted in identification of \$1,132,644 in funds remaining in completed budgeted capital projects that would be applied at year end toward the \$1,858,379 shortfall. The remaining \$725,735 would be repaid, if possible, by the end of FY 2013. Receipt of the final AIP grant for the Airline Terminal Project in the amount of \$750,000, will cover the remaining shortfall balance, but the grant is not expected until July or August 2012, or FY 2013. If the AIP grant is not received by June 30, 2012, the Airport's Council Policy Reserves for Capital will provide a "stop-gap" measure until the grant is received.

Based on the appropriation of reserves above policy, the Airport staff examined every line item and position eliminating or freezing expenditures in order to balance FY 2012.

Major unanticipated adjustments were required in order to fund the FY 2013 budget. Two vacant positions are being deleted as well as the proposed \$350,000 for FY 2013 capital projects.

Revenue Analysis:

As an Enterprise Fund, the Airport's budget has been prepared based on forecasted revenues from tenant rentals and user fees.

Revenue assumptions for FY 2012 projections and explanation of material budget variances:

- Commercial and industrial revenue target was expected to have slight growth and currently a 3.9% increase over budget is projected.

- Non-Commercial Aviation (general aviation) revenues met target and have increased 10.6% due to GA landing fees and increased fuel sales.
- Airline Terminal revenues were based on a full year of occupancy in the new terminal, however, that date was pushed to August 18, so it is estimated that restaurant and gift shop revenues will be slightly under budget. Parking revenues had been severely impacted by the construction and the loss of the short term parking lot and revenues will be 24% below budget. A rental adjustment for Long Term Lot #1 was implemented on February 1, 2012, after the loss of the short term parking lot.
- Commercial Aviation revenues will also be below target due to the terminal opening date and the loss of the SkyWest Airlines flight crew base which impacts revenue for employee parking. Building rental from the airlines will be 7% below target and landing fees will be below target by 3.4%.
- Overall FY 2012 revenues are projected to be 3.7% below target.

Revenue assumptions for FY 2013 reflect the full year of occupancy in the new Airline Terminal building and the completion of the project in June 2012.

- Commercial and industrial revenues are projected to flat in FY 2013 allowing for minor CPI adjustments and some turnover.
- Non-Commercial Aviation revenue is projected to modestly increase based on general aviation activity.
- Terminal revenues are budgeted to reflect a full year of occupancy of the new terminal with the restaurant and gift shop remaining on budget, rental car revenues will remain the same based on a competitive bid annual guarantee. The parking revenue has been adjusted downward -19% to reflect a full year of the rate adjustment in the long-term lot and slight return of passenger parking once construction is complete.
- Commercial Aviation revenues are projected to increase. The airline building space is projected to increase 4.5% and landing fees will increase approximately 12.4% based on scheduled airline flights for the summer and other seasonal changes.

Changes in fees with related revenue impacts:

No fee adjustments are planned for the public parking facilities.

New revenue line items

No new revenue line items are proposed.

Expenditure Analysis:

Expenditure assumptions for FY 2013 projections and explanation of material budget variances in FY 2012:

- Salaries and Benefits are projected to be below or at budget. The Security Program continues to have vacant positions and overtime has been used resulting in a substantial over expenditure in this line item. In order to balance FY 2013, two vacant positions are being recommended for deletion: the Marketing Coordinator and Associate Planner.
- Total Materials & Supplies will be under budget due to the delay in occupying and actual experience operating in the new terminal building, in order to balance FY 2012 all expenditures including equipment purchases will require prior approval. Goleta Water

District has another major increase in the water charges and this increase is programmed into the budget all other line items for FY 2013 have been carefully evaluated and adjustments made to balance.

- Special Projects includes the parking shuttle operation with a +8% increase has been budgeted due to the increase in Living Wage and the cost of fuel. A new project to further develop the Airport premises survey has been eliminated saving \$60,000.
- Beginning in June 2012, the Airport will begin payment of debt service for the new Airline Terminal. Previous debt service payments were funded by bond proceeds set aside for capitalized interest. The debt service is paid from operating revenues (\$1,780,853) and Passenger Facility Charge revenues (\$1,300,302). Although the Airport is submitting a balanced FY 2013 budget, the debt service coverage ratio will be 1.0.
- The budgeted Capital Improvement Program for FY 2013 of \$350,000 has been eliminated in order to balance the budget.
- Total Expense including Capital transfers for FY 2012 is projected to be 1% below budget.

Program Changes

Significant changes in P3 objectives by program. Please see the attached P3's reports for FY 2013, the new objectives have been highlighted and generally pertain to the new Airline Terminal operation.

Special projects and/or new initiatives contained in budget – No special projects are planned for FY 2013.

Significant reallocation of resources between programs - none

Other Discussion Items:

All proposed staffing changes and how funded – Two vacant positions are being eliminated in the FY 2013 budget, savings needed to balance the budget.

Proposed capital projects contained in budget – the \$350,000 funding for the planned capital projects to maintain the Airport's assets has been eliminated for FY 2013 in order to balance the budget.

Supplemental Items:

of Staffing Hours for proposed Hourly Salaries:

- Security – 7431 - \$173,370
14 Airport Traffic Aides – 956 hours each at \$12.25/hour

The cost for hourly employees will increase because of the need to staff the checkpoint exit lane in the new Airline Terminal building. The Airport is responsible for covering the doorway for exiting passengers located by the security screening area to prevent unauthorized people from entering the sterile area (departure lounge). This exit needs to be covered during the period that TSA is conducting passenger screening operations, approximately 16 hours per day.

Staff has looked at several options, including the use of technology, as an alternative to staffing the exit lane. However, the best way to avoid a security breach is to have a person at the exit lane to ensure that unauthorized persons do not enter the sterile area. Unauthorized entry into the sterile area (holding rooms) could result in the need to evacuate all passengers, search the sterile area for prohibited items, and re-screen all the evacuated passengers. Unless a technology solution is found, the need for these positions will be on going.

- Custodial Maintenance – 7422 - \$40,000
4 Custodians – 581 hours each at \$17.21

Hourly staff is needed to provide on-going custodial services for the Airline Terminal when permanent staff is unavailable due to vacancies, illness, vacation, or personal leave.

Budget Subcommittee

On April 5, 2012, the Airport Commission Budget Subcommittee met and reviewed the FY 2013 operating budget in detail and recommended approval. The Budget Subcommittee also requested additional information regarding the mid-year adjustments. Staff will submit a detailed response in a separate report.